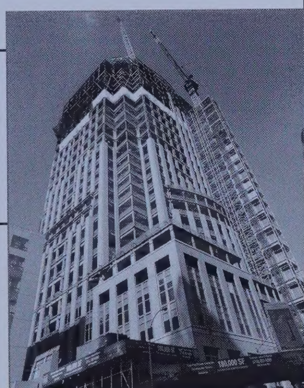
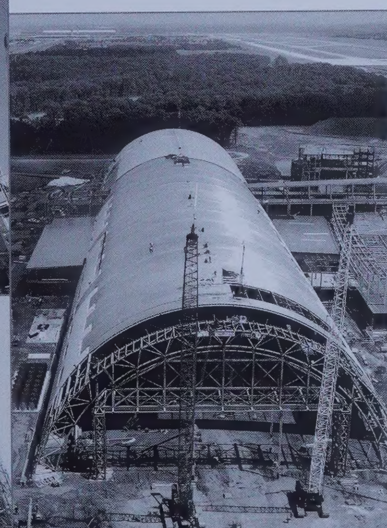
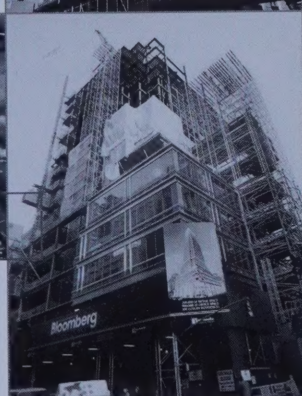
ADF Group Inc.

Restructuring







A Unique Expertise
In Structural Steel Megaprojects

ANNUAL REPORT 2002-2003

Corporate Information

ADF Group Inc.
300 Henry-Bessemer
Terrebonne, Quebec
Canada J6Y 1T3

Tel.: (450) 965-1911
(800) 263-7560
Fax: (450) 965-8558

www.adfgroup.com
infos@adfgroup.com

TRANSFER AGENT AND TRUSTEE
Computershare Trust Company of Canada

AUDITORS
Samson Bélair/Deloitte & Touche

FINANCIAL COMMUNICATIONS
Lefebvre Financial Communications Inc.

The Annual General Meeting of Shareholders of ADF Group Inc. will be held on July 31, 2003 at 11:00 a.m, at the Omni Mont-Royal Hotel, Saisons A Room, 1050 Sherbrooke Street West, Montreal, Quebec H3A 2R6.

The Annual Information Form of ADF Group Inc. for the fiscal year ended January 31, 2003, will be available on SEDAR (http://www.sedar.com) and at the Company's head office as of June 18, 2003.

• Listing •
The subordinate voting shares are listed on the Toronto Stock Exchange under the ticker symbol DRX.

ADF Group Inc. wishes to maintain ongoing, transparent communications with its shareholders and members of the financial community. To ensure you receive all the information distributed by the Company on a regular basis, you are invited to add your name to our mailing list, by sending your request to the attention of:

Kathleen Ryffranck
Public Relations
ADF Group Inc.
300 rue Henry-Bessemer
Terrebonne, Quebec J6Y 1T3
Tel: (450) 965-1911, ext. 2283
Fax: (450) 965-8558
infos@adfgroup.com
kathleen.ryffranck@adfgroup.com

or to the attention of our trustee:

Mrs. Micheline Talarico
Computershare, Investor Services
1500 University Street, Suite 700
Montreal, Quebec H3A 3S8
Tel: (514) 982-7888
Fax: (514) 982-7974

Ce rapport annuel est également disponible en français.

Financial Highlights

(in thousands of $, except per-share amounts, percentages and ratios)

Fiscal years ended January 31

Operating Results	**2003** **$**	2002 $	2001 $	2000 $	1999 $
Revenues	**306,979**	510,179	334,385	218,203	108,900
EBITDA [1]	**(41,581)**	48,748	45,723	32,410	21,251
Provisions for contracts in progress and accounts receivable and other assets [2]	**(101,068)**	—	—	—	—
Net income (loss)	**(129,525)**	25,274	24,215	15,455	11,784
• per share	**(4.88)**	0.94	1.11	0.73	0.56
• fully diluted per share	**(4.88)**	0.93	1.11	—	—
Cash flows provided (used) by operations	**17,544**	(51,567)	(50,593)	(11,775)	(17,398)
Acquisition of capital assets	**4,517**	9,464	24,192	7,563	22,863
Business acquisitions (divestitures)	**33,681**	(2,310)	(546)	—	2,010
Financial position					
Total assets	**279,976**	395,147	298,799	173,939	114,446
Working capital	**(39,467)**	168,799	114,082	62,462	27,253
• current ratio	**0.81:1**	2.24:1	2.00:1	2.06:1	1.58:1
Shareholders' equity	**69,540**	200,040	135,815	90,755	43,681
Total net debt [3]	**131,535**	110,704	93,990	42,808	44,701
• % of total invested capital [4]	**65%**	36%	41%	32%	51%
Information on share-capital					
Number of subordinate voting shares (in thousands)	**12,417**	12,417	7,717	7,163	
Number of multiple voting shares (in thousands)	**14 343**	14,343	14,343	14,343	
Number of subordinate share purchase warrants (in thousands)	**950**	950	450	—	
Share price:					
- high	**15.93**	15.24	12.00	13.00	
- low	**1.30**	8.00	7.05	7.50	
- close (as at January 31)	**1.50**	13.62	8.90	10.95	
Trading volume (in thousands)	**415,583**	198,443	187,843	11,664	
Market capitalization (as at January 31)	**40,140**	364,471	196,338	235,489	

(1) Earnings (loss) before depreciation, amortization, interest, non-cash unusual items of $101.1 million in 2003, income taxes and non-controlling interest. EBITDA is not a measure of performance under Canadian generally accepted accounting principles, however, Management uses this performance measure in order to assess operating performance.

(2) Of this total, an amount of $101.1 million (before taxes) had no impact on the year's operating cash flows as it came from the revaluation of the profits generated on certain contracts due to the upward revision of the estimated costs to complete contracts, the non-realization of estimated revenues, and the provisions for contracts in progress, accounts receivable and other assets.

(3) Long-term debt including the current portion, plus bank debt net of available cash

(4) Total net debt divided by the sum of total net debt and shareholders' equity

Message to Shareholders

Interview with Management

During fiscal 2002-2003, like the rest of its industry, ADF was severely affected by the important decline of the North American non-residential construction market. The economic slowdown coupled with the impact of the September 11, 2001 events on the U.S. economy translated into a major decrease in demand and delays in the start-up of several large-scale steel superstructure projects, especially in New York City, ADF Group's primary market.

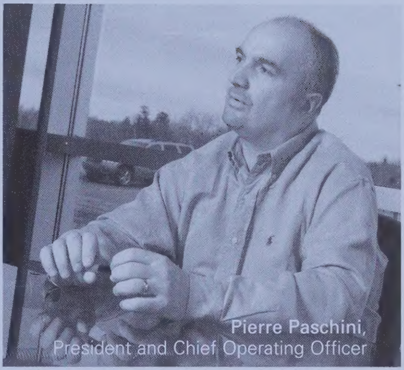
Consequently, for the fiscal year ended January 31, 2003, after more than 20 years of uninterrupted growth and profitability, ADF Group suffered a 40% decline in sales which totalled $307 million, and recorded a net loss of $129.5 million most of which, however, had no impact on cash flows.

In response to the economic slowdown and new market challenges, in the fall of 2002 the Company undertook an important restructuring process aimed at lowering its costs and increasing its flexibility. Several measures were also implemented to reduce bank indebtedness, better monitor the follow-up on contracts and costs associated with the supplementary work required by clients, and improve the collection of accounts receivable. More recently, ADF embarked on another restructuring phase in order to further reduce its fixed costs, improve its treasury, lower indebtedness and be more competitive in the current context of weak markets.

Through this process, management aims to position ADF favorably for the eventual recovery in North America, so as to restore adequate returns for shareholders.

In the following interview, Jean, Pierre and Marise Paschini discuss the highlights of the fiscal year ended January 31, 2003, as well as the Company's outlook and objectives.

Q. ***Could you elaborate on market conditions in 2002-2003? Had you contemplated such a slowdown?***



Pierre Paschini,
President and Chief Operating Officer

Pierre Paschini ____ The market we evolve in experiences a slowdown every 10 years or so. In the past 20 years, we have not only prepared the Company for economic downturns, but we have also managed to minimize their impact by developing new growth strategies. For instance, we overcame the recession in the early eighties by diversifying our business into structural steel. Then once again in the early nineties, we dealt with the decline in Canadian demand for steel structures by adopting an accelerated expansion strategy into the United States.

What makes the current slowdown different from other cyclical downturns, however, is the magnitude of the September 11, 2001 events, the economic impact of which was as disastrous as it was unforeseeable. As an indication, the financial shortfall for New York City alone – which accounted for more than half of ADF's revenues in 2001-2002, especially in high-rise buildings – is estimated at over $100 billion. Among other things, the vacancy rate in New York City office towers rose significantly over the past year, a situation which large rental property owners in most other major American cities are also faced with. Given the execution cycle of projects, it's mostly as of the second half of 2002 that our industry started to feel the full impact of this slowdown.

In 2002, close to a dozen potential contracts worth over $50 million each were put on the back burner. In fact, the projects most affected by the slowdown were those requiring substantial steel tonnage and the most demanding in terms of engineering, fabrication and installation capabilities. That was particularly the case for office towers and airport facilities, two fields of expertise that have been among our key market segments since 1998, as we have designed, fabricated and erected the steel structures for 10 high-rise buildings and carried out a dozen large-scale projects in nine airports across Canada and the United States.

As a result, industry players had to fall back on smaller-scale contracts with less tonnage and added value. That led to intensified competition, which in turn has put strong pressure on selling prices.

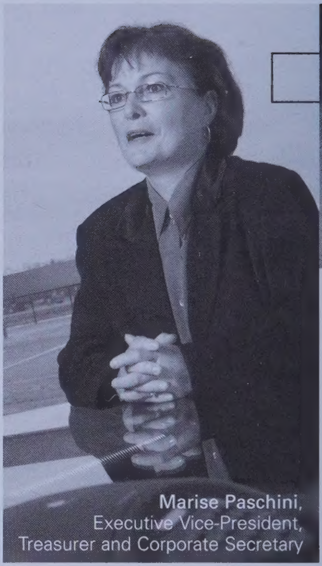
Q. ***What measures have you taken to improve internal controls and reduce your future risk?***

Marise Paschini ____ Let me first summarize the measures taken in fiscal 2003. I will then ask Jean to comment on the latest events and provide an update on the Company's current status in its restructuring process.

As of the fall of 2002, when our industry was being hit by the effects of the economic slowdown, we adopted and implemented two series of measures: the first, to secure a more competitive cost structure, and the second, to better manage our operational, commercial and financial risks.

First, we started to reduce operating costs throughout the Company to align our operations with market conditions. Among the major restructuring measures adopted last year, we reduced our labour force by 314 people throughout our three plants, closed and divested our fabrication facilities in Florida, and merged our heavy construction equipment leasing subsidiary with ADF's operations. These initiatives will yield recurring savings of approximately $17 million as of 2003-2004.

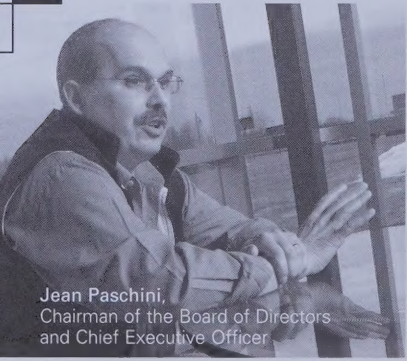
Secondly, besides adopting more rigorous criteria for the recognition and collection of receivables, we put together a team of managers focused exclusively on monitoring the changes made to contracts, negotiating supplementary costs with clients, and recovering these amounts. We moreover set up a Process Committee consisting of our corporate officers whose role is to review the risks, operational aspects and special features of every project right from the bidding stage. Lastly, we revised our hedging policies to minimize the risk of fluctuations in the Canadian dollar versus the U.S. dollar. We converted our entire bank debt previously denominated in Canadian dollars into U.S. dollars, and started using forward exchange contracts as a hedging instrument. These measures helped offset the impact of the increase in the Canadian dollar on our cash assets.


Marise Paschini,
Executive Vice-President,
Treasurer and Corporate Secretary

I would like to add that despite the loss of the last fiscal year, we have reduced our debt since July 31, 2002. A reduction in working capital produced a cash inflow of $44 million during fiscal 2003, as opposed to a cash outflow of $85 million the prior year. Our total net debt was therefore lowered by $34 million in the second half of the year, down from $165.4 million as at July 31, 2002, to $131.5 million as at January 31, 2003. As at May 31, 2003, total net debt amounted to $107.9 million, a further decrease of $23.6 million from January 31, 2003.

We intend to intensify the restructuring process in 2003-2004.

Q. ***What other decisions or measures have you taken since the end of fiscal 2003?***


Jean Paschini,
Chairman of the Board of Directors
and Chief Executive Officer

Jean Paschini ____ In light of our weak markets, we decided to extend the Company's restructuring process in order to create additional savings of several million dollars (especially in fixed costs), improve our treasury, strengthen our balance sheet, reinforce managerial and departmental accountability and, thereby, make the Company more competitive and efficient. In fact, we seek to take advantage of the weak market activity to thoroughly review our operations and implement major changes, including, among other things, management information systems that will facilitate analysis and support our decision-making.

To carry on the restructuring program, we have set up a Special Executive Committee reporting directly to the Board of Directors. This Committee's mandate is to proceed with an in-depth analysis not only of our asset base, but also of our various systems and operating practices, evaluate the best alternatives in order to make its recommendations to the Board, and launch the implementation process. To that end, the Committee is assisted by external advisors whose services were recently retained by ADF. We intend to present shareholders, at our next Annual Meeting, the broad outlines of the restructuring plan as approved by the Board of Directors.

Moreover, we are currently negotiating with our financial partners to restructure part of our secured debt and, in this negotiation, we hope to conclude agreements shortly.

Q. What are your market expectations for 2003-2004?

Pierre Paschini ____ We remain cautious about the outlook for fiscal 2003-2004. Over the short term, demand will remain weak in the United States, especially in the office tower and airport segments. The market outlook is somewhat more favourable in Canada, where the value of non-residential construction projects is expected to grow by about 15%. Investments of several billion dollars annually are notably foreseen before 2005 in the energy sector, public infrastructures and aluminum smelters in Quebec. In fact, ADF Group was recently mandated to supply the assembly engineering, fabrication and installation of the steel structures of three of the most important industrial projects awarded in Quebec in 2002-2003: the expansion of Aluminerie Alouette in Sept-Îles which, upon completion, will make it the largest aluminum smelter in North America; the chamber coating centre at the new Alcan smelter in Alma; and the hydroelectric power station on the Toulnustouc River, on the North Coast, for which ADF was mandated to supply the structural steel and architectural metal work. In 2003-2004, we will further develop Quebec's dynamic industrial sector.

Over the longer term, the outlook remains positive in our four main markets, namely the Northeastern, Midwestern and Southeastern U.S., as well as Eastern Canada, where we will strive to establish a balanced positioning in our major business sectors.

We also continue to make inroads abroad, having recently landed a contract in the Caribbean with the French firm Bouygues to design, build and install steel bridge structures. This project raises our profile by giving us good visibility on the international scene. To share the operational risks, our strategy internationally will be to team up with major consortiums.

Q. What are your expectations and financial objectives for 2003-2004?

Jean Paschini ____As the growth of our order backlog and sales depends on the economy, which is unfortunately beyond our control, we foresee another difficult year in terms of activity level. Our backlog of signed orders amounted to $209 million as at January 31, 2003, and to about $120 million as at May 31, 2003. However, we have more than $450 million in projects at the bidding stage.

As mentioned earlier, we are in the process of restructuring our organization and business model according to today's economy, with a view to restoring operating profitability, which is our short-term key priority, and to be in a better position for an eventual market recovery.

Secondly, we hope to shortly conclude agreements with our major financial partners that will give ADF the latitude needed to carry on its restructuring and position itself for the recovery.

Recovering the maximum amount of supplementary costs incurred in certain of our contracts, for which no revenues were recognized so far, is another priority for fiscal 2003-2004. We will focus our efforts to collect, within six to 24 months, a significant portion of these unrecorded revenues. Discussions are already well under way with clients and, in some cases, we expect to rapidly settle the negotiation and repayment of the supplementary costs. Other cases will take longer to settle, such as the Lions Stadium project in Detroit for which our claim totals US$37 million. For this dispute, the client has decided to avail itself of the arbitration procedure. As for the Universal CityWalk project in Orlando, Florida, which had been the subject of a lawsuit since 1998, this case was settled in our favour in November 2002, enabling us to recover an amount of $12.7 million.

Q. ***Are your long-term objectives and vision still the same?***

Jean Paschini ____ Yes. Our management has undoubtedly evolved over the past few quarters and will continue to do so, but our vision and objectives remain unchanged.

We will continue to target projects where we can stand apart and fully capitalize on our distinctive strengths. We will further diversify geographically and sectorally. While paying close attention to our cost and business risk management, we will continue to consolidate our leadership in steel superstructure projects and position ourselves for the future with cutting-edge technologies that add value to our products and services.

Drawing on the support of our financial partners, including our shareholders, we are confident the Company will come through this difficult period and return to profitable growth of its business. We will invest all our energy in meeting our core objective: bring ADF Group back to prosperity and create value for our shareholders, clients and employees.

The past few months have definitely not been easy for our staff. I join Marise and Pierre in expressing my gratitude toward ADF Group's employees who, project after project, continue to showcase the Company through their know-how and commitment to delivering a quality product. We thank all our teams for their confidence, trust, loyalty and invaluable cooperation.

We would also like to thank Daniel Poulin – who recently announced his decision to resign his position as Vice-President, Finance and Chief Financial Officer – for the professionalism with which he successfully carried out the various mandates he was assigned by the Company. Last May, Louis Potvin was notably appointed Chief Financial Officer of ADF Group, replacing Daniel Poulin. He will be seconded by Marc Laprise, whose recent appointment as Vice-President, Finance, we would also like to highlight.

Jean Paschini
Chairman of the Board of Directors
and Chief Executive Officer

Pierre Paschini, Eng.
President
and Chief Operating Officer

Marise Paschini
Executive Vice-President,
Treasurer and Corporate Secretary

June 2003

Board of Directors

To uphold the quality of its management and strategic planning in the interest of all its shareholders, ADF Group has set up a Board of eight directors, five of whom are unrelated to the Company, selected for the operational and strategic know-how they bring to ADF. In addition, the Board has set up an Audit Committee and a Corporate Governance Committee comprised exclusively of unrelated directors, as well as a Human Resources Committee comprised of a majority of unrelated directors. These committees enforce the application and compliance of the Company's practices, notably in regard to the management of its business risk and the pre-sentation and disclosure of its financial information. The Company has also established a policy setting out the guidelines for communications with shareholders, and created a Disclosure Committee reporting to the Board of Directors to ensure the application of such policy.

Jean Paschini
Chairman of the Board of Directors
and Chief Executive Officer
ADF Group Inc.

Pierre Paschini, P. E.
President
and Chief Operating Officer
ADF Group Inc.

Marise Paschini (3)
Executive Vice-President,
Treasurer and Corporate Secretary
ADF Group Inc.

Marc Belcourt, Eng. (2) (3)
Construction Consultant,
Independent Leader of the
Board of Directors of ADF Group Inc.

Ronald A. Black (1) (2) (3)
Chief Operating Officer,
Corporate Secretary and Treasurer
American Iron & Metals Company Inc.

Marc Filion, Ph.D., M.B.A., Eng. (1) (2) (3)
President
and Chief Operating Officer
SGF Mineral Inc.

Jacques Landreville (2) (3)
President
and Chief Executive Officer
Uni-Select Inc.

Jacques Simoneau, Eng., Ph.D. (1)
Vice-President,
Investment Group
Fonds de solidarité FTQ
(Quebec Labour Fund)

(1) Member of the Audit Committee
(2) Member of the Corporate Governance Committee
(3) Member of the Human Resources Committee

Management Team

Jean Paschini
Chairman of the Board of Directors
and Chief Executive Officer
ADF Group Inc.

Pierre Paschini, P.E.
President
and Chief Operating Officer
ADF Group Inc.

Marise Paschini
Executive Vice-President,
Treasurer and Corporate Secretary
ADF Group Inc.

Ivan Antolin, Eng.
Vice-President, Project Management
ADF Group Inc.

Spencer Brown
General Manager
Owen Steel Company Inc.

Yves Cloutier
Vice-President, Sales and Estimating
ADF Group Inc.

Richard Côté, Eng.
Vice-President, Contracts
ADF Group Inc.

Carolyn Hanson, M. Eng.
Vice-President, Engineering
ADF Group Inc.

Marc Laprise, C.M.A.
Vice-President, Finance
ADF Group Inc.

Jean-Louis Leblanc
Executive Vice-President,
International Business
ADF Group Inc.

Louis Potvin, C.A., M.B.A.
Chief Financial Officer
ADF Group Inc.

President and Chief Operating Officer
Owen Steel Company Inc.

Daniel Rozon
Vice-President, Procurement
ADF Group Inc.

Robert Speak, PQS
Vice-President, Contract Administration
ADF Group Inc.

Yvan Vandemale
Vice-President, Operations
Owen Steel Company Inc.

Management's Discussion and Analysis of Operating Results and Financial Position

Management's discussion and analysis of ADF Group Inc.'s operating results and changes in financial position for the years ended January 31, 2003 and 2002, as well as the Company's financial position at those dates, should be read in conjunction with the consolidated financial statements and the related notes appearing in this annual report. Some sections of this analysis contain forward-looking statements about the Company which involve a number of risks and uncertainties. Actual results could therefore differ materially from those indicated or underlying these forward-looking statements.

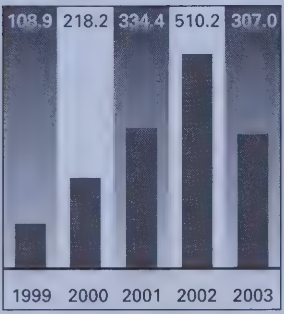
Description of the Business

Founded in 1956, **ADF Group Inc.** ("ADF" or the "Company") is a North American leader in the design, engineering, fabrication and installation of complex steel superstructures, as well as in architectural metal work. As at January 31, 2003, the Company operated three fabrication plants: two in Canada and one in the United States. ADF employs 974 people, including a team of 74 engineers and designers. ADF has developed and maintains solid business relationships with several of the top general contractors and engineering firms in North America and worldwide. The Company has diversified expertise in three key segments of the non-residential construction market:

- **commercial and institutional buildings** (office towers, hotels, convention centres, government buildings, recreational and sports complexes, museums, etc.);
- **industrial complexes** (power stations, petrochemical complexes, automotive assembly lines, various manufacturing facilities); and
- **public infrastructures** (airport facilities, aerospace complexes, bridges and overpasses, etc.).

Operating Results

Sales
(in millions of $)



For the fiscal year ended January 31, 2003, ADF posted a net loss of $129.5 million or $4.88 per share ($4.88 fully diluted), as opposed to a net profit of $25.3 million or $0.94 per share ($0.93 fully diluted) the previous year, as a result of the decline in revenues due to a difficult economic climate in the United States, increased debt and fixed expenses following the acquisition of Owen Steel, cost overruns and the difficulties in recovering these extra costs through additional revenues, and the recording of provisions for contracts in progress, accounts receivable and other assets. A significant portion of the year's loss (the equivalent of $101.1 million before taxes) had no impact on the year's operating cash flows as it came from the revaluation of the profits generated on certain contracts due to the upward revision of the estimated costs to complete contracts, the non-realization of estimated revenues, and provisions for contracts in progress, accounts receivable and other assets.

During the fiscal year ended January 31, 2003, ADF Group achieved contract revenues of $307.0 million compared with $510.2 million the previous year, a decrease of $203.2 million or 39.8%. Contract revenues recorded in the Company's main market, the United States, went from $406 million to $280 million whereas in Canada, they amounted to $27 million compared with $104 million a year earlier.

The decline in revenues is attributable to the sharp slowdown in non-residential construction activity in North America, especially in the Northeastern United States. In addition, due to a change in the criteria used for the recognition of revenues, the downward revision in estimated revenues and the higher costs of certain contracts affected revenues.

ADF incurred a gross loss of $108.6 million, as opposed to a gross profit of $67.3 million in fiscal 2002, $87.6 million of which had no impact on operating cash flows, as previously mentioned. Among other things, major revisions to cost and revenue estimates were made during the year with respect to the following contracts: the Lions Football Stadium in Detroit, as well as the Columbus Center and the Brooklyn Queens Expressway in New York City. Moreover, a contract awarded during the year yielded a $8.0 million loss due mainly to engineering changes that affected fabrication and installation costs. Pursuant to the adoption of more rigorous valuation criteria, the Company did not record any revenues for these additional costs. Although the project had not been completed by the end of the year, the Company accounted for the total forecasted loss as at January 31, 2003.

It should also be noted that the Company recorded a $0.4 million foreign exchange loss in 2002-2003, compared with a $9.4 million foreign exchange gain the previous year. During the year, the Company set up a currency risk hedging program which helped reduce the impact of the increase in the Canadian dollar versus the U.S. dollar. Therefore, the foreign exchange gains realized on the debt denominated in U.S. dollars and the $3.8 million proceeds from the gains on forward exchange contracts helped offset the loss in value on the assets denominated in U.S. dollars, as the value of the Canadian dollar went from $1.5829 ($0.6318) as at July 31, 2002, to $1.5215 ($0.6572) as at January 31, 2003.

Selling and administrative expenses amounted to $34.1 million, up from $18.5 million in 2002. This increase was due mainly to the recognition in the fourth quarter of provisions on accounts receivable totalling $8.1 million, a $5.4 million provision for a note receivable from a subcontractor, restructuring costs of $1.5 million associated with the restructuring carried out since the fall of 2002, and the writeoff of deferred financing expenses in the amount of $1.0 million. Without these special charges, selling and administrative expenses stood at $18.1 million, down 2.1% from the previous year. Excluding the March 2002 acquisition of Owen Steel, selling and administrative expenses declined by $5.2 million or 28.1%.

ADF posted a loss before depreciation, amortization, interest, income taxes and non-controlling interest of $142.6 million, compared with income of $48.7 million a year earlier.

Depreciation and amortization of capital assets increased by $1.9 million or 31.7%, due primarily to the acquisition of Owen Steel. Financial expenses grew by $1.6 million or 19.5%, due mostly to the financing of this acquisition. It should be pointed out that the costs associated with the increased debt were partially offset by the decline in interest rates.

Consequently, ADF incurred a loss before income taxes and non-controlling interest of $160.3 million, as opposed to income of $36.4 million the previous year, which included a $1.8 million gain on the disposal of a subsidiary. ADF recorded a tax recovery of $29.5 million, versus a tax expense of $11.0 million a year earlier. These results also account for the $1.3 million non-controlling interest's share in the loss of subsidiaries.

Quarterly Figures

(in thousands of $ except per-share amounts) (unaudited)

Fiscal year ended January 31, 2003	Q1 $	Q2 $	Q3 $	Q4 $
Sales	108,946	109,263	67,217	21,553
Net income (loss)	3,470	1,540	(44,917)	(89,618)
• per share	0.12	0.05	(1.69)	(3.36)
• fully diluted per share	0.12	0.05	(1.69)	(3.36)

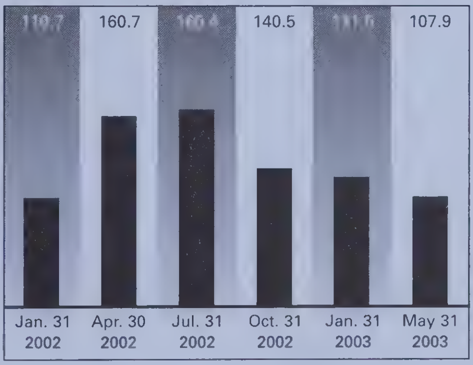
Fiscal year ended January 31, 2002	Q1 $	Q2 $	Q3 $	Q4 $
Sales	112,605	137,609	138,521	121,444
Net income	8,030	8,952	8,032	260
• per share	0.34	0.33	0.29	0.00
• fully diluted per share	0.32	0.32	0.29	0.00

Financial Position and Principal Cash Flows

Total net debt rose from $110.7 million as at January 31, 2002, to $131.5 million as at January 31, 2003, due mainly to financing the acquisition of Owen Steel. However, it should be noted that the Company reduced its total net debt in the second half of the fiscal year, by some $33.9 million since July 31, 2002, largely by reducing its working capital. Total net debt stands at $107.9 million as at May 31, 2003. Total net debt consists of long-term debt (including the current portion) and bank indebtedness, net of cash. As at January 31, 2003, ADF's bank indebtedness amounted to $94.9 million and it had cash of $15.0 million, compared with bank debt of $75.6 million and cash of $26.5 million a year earlier.

During fiscal year ended January 31, 2003, the Company sustained major operating losses that entailed the non-compliance with certain financial ratios with regard to its bank debt and long-term debt. As at May 31, 2003, the Company was still negotiating with its financial partners. Accordingly, ADF's total debt was presented as a current liability in its balance sheet as at January 31, 2003.

Net Total Debt
(in millions of $)



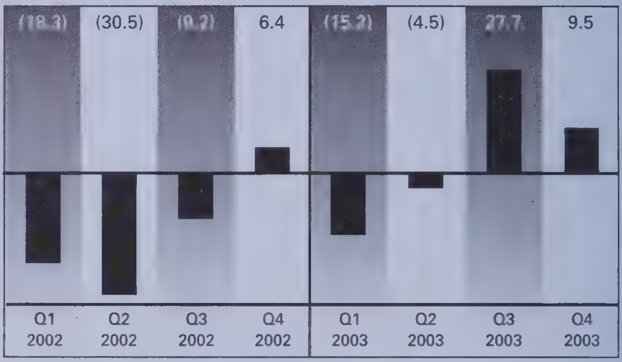
Operating Activities

During fiscal 2003, operating activities generated cash flows of $17.5 million, as opposed to a cash outflow of $51.6 million in 2002. Changes in non-cash working capital items yielded cash and cash equivalents of $44.0 million, whereas they had used cash flows of $84.9 million the prior year. This turnaround, which was done in the second half of the year, was due partly to a more rigorous collection of accounts receivable, as well as the receipt of $12.7 million (US$8.1 million) upon the settlement of a dispute relating to the additional costs incurred by ADF due to the excessive number of changes made in executing the Universal CityWalk project in Orlando, Florida. This dispute, which was under way since 1998, had ADF Group opposed to Baker Mellon Stuart Construction (BMS), Travelers Casualty, BMS's surety company, Hellmuth, Obata+Kassabaum, the project architect.

As at January 31, 2003, working capital showed a deficit of $39.5 million due partly to the reclassification of long-term debt as a current liability. Besides the $19.4 million increase in bank indebtedness, the decline in working capital can also be attributed to a $135.7 million or 44.4% decrease in current assets.

The value of contracts in progress went from $134.2 million to $21.0 million, because of the non-cash charges of $67.5 million recorded in the third and fourth quarters, the transfer to long-term assets of additional costs (net of recorded losses and provisions) of about $33.6 million relating to the Lions Stadium contract in Detroit (for which the client decided to avail itself of the contractual arbitration process), and the slowdown in business.

Cash Flows Provided (used) by Operating Activities
(in millions of $)



Total accounts receivable and short-term holdbacks on contracts went from $130.7 million as at January 31, 2002, to $93.9 million by the same date in 2003. This decrease of $36.8 million or 28.7% is attributable to the following factors:

- the collection, upon the settlement of the dispute in respect of the Universal CityWalk project, of the amount of $12.7 million of the account receivable on this project;
- writeoffs and provisions of approximately $11.5 million for accounts receivable;
- the slowdown in business; and
- the implementation of more rigorous receivables monitoring and collection criteria.

Investing Activities

Investing activities used cash flows of $35.3 million, primarily to acquire, as at March 27, 2002, the operational assets – specifically capital assets and working capital – of Owen Steel Company at a cost of $32.3 million (in addition to the $0.8 million deposit paid the previous year). ADF also invested $1.3 million to purchase the balance of the 40% minority interest in its subsidiary Montage d'acier international inc., which owns 100% of the shares of MDI USA Inc. In addition, ADF purchased $7.1 million of new capital assets (including those financed by capital leases) and divested $3.1 million in fixed assets. The capital assets acquired in 2003 consisted mainly of cranes used for installation purposes for an amount of $3.3 million, the purchase and development of software for $1.9 million, and building improvements for $1.2 million. The value of capital assets rose from $61.1 million to $83.8 million subsequent to the acquisition of Owen Steel.

Other assets increased from $24.8 million as at January 31, 2002, to $25.4 million as at January 31, 2003. An amount of $33.6 million associated with the Lions Football Stadium contract in Detroit, previously presented in contracts in progress as at January 31, 2002, was transferred to this item and a provision of $16.7 million (US$11.1 million) was recorded as at January 31, 2003 for this item. A provision of $5.4 million (US$3.5 million) was also recorded as at January 31, 2003 for the note receivable from a subcontractor, and the balance receivable, currently estimated at $0.8 million (US$0.5 million), was reclassified as other accounts receivable and presented in current assets.

Financing Activities

Financing activities provided net cash flows of $6.4 million. The Company contracted $49.6 million in new bank loans, $39.6 million of which served to acquire the assets of Owen Steel. ADF repaid another $30.2 million in bank loans, including $16.7 million on the loan relating to the acquisition of Owen Steel, while long-term debt was reduced by $13.0 million.

Risks and Uncertainties

Financing of Operations and Business as a Going Concern

As at May 31, 2003, the Company's major outstanding debts and interest situation was as follows:

- bank indebtedness totalled $40.8 million or US$29.6 million (versus $70.8 million or US$46.5 million as at January 31, 2003);
- the temporary loan stood at $20.5 million or US$15.0 million ($22.8 million or US$15.0 million as at January 31, 2003);
- the loan due as at November 30, 2002 amounted to $6.5 million;
- principal repayments of $100,000 had not been made on a bank loan maturing in November 2013 in the amount of $11.8 million ($11.9 million as at January 31, 2003);
- principal repayments of $300,000 had not been made on a bank loan maturing in March 2015 in the amount of $15.4 million ($15.7 million as at January 31, 2003);
- unpaid accrued interest of $674,000 was due on the unsecured debenture of $15 million;
- unpaid accrued interest of $366,000 was due on the convertible debenture of $15 million.

As at June 11, 2003, the Company was still in negotiation with its financial partners to restructure part of its secured debt. The Company was also in discussion to establish new surety agreements in order to facilitate the transition of its business once the economy recovers. Management hopes to finalize all these negotiations in the near future. In addition, management's short-term objective is to restore the operating profitability.

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern which assumes the realization of the assets and payment of the debts in the normal course of business and in a foreseeable future.

Market

The demand for the Company's products depends on the general economic and business climate in North America, including new construction starts and the level of activity in institutional, industrial and commercial work projects. A decline in demand has a negative impact on prices and profit margins. ADF Group's activities are also subject to the risk of incurring liabilities faced by all businesses involved in the construction industry.

Fixed-Price Contracts

A substantial portion of the Company's order backlog consists of projects performed on a fixed-price basis. Actual costs and gross profit realized on a fixed-price contract can vary from the estimated amounts because of unforeseen circumstances or changes in job conditions. Consequently, revenue estimates are based on management's assumptions supported by historical experience. There can be no assurance that these estimates will not vary from the actual results.

Currency

Due to the nature of its business, ADF Group is subject to certain risks associated with the exchange rate. The Company's sales are largely denominated in U.S. dollars, while some of its operating expenses and capital expenditures are denominated in Canadian dollars. An increase in the Canadian dollar relative to the U.S. dollar would adversely affect the Company's consolidated income, whereas any decrease would have a positive impact on such income. In July 2002, to reduce the risk associated with fluctuations in the Canadian dollar, the Company converted its total bank indebtedness denominated in Canadian dollars, in the amount of $50 million, into U.S. dollars. Besides lowering the risk of currency fluctuations, maintaining its debt in U.S. dollars reduces the interest rate on such debt. In addition, the Company uses forward exchange contracts as a hedging instrument to minimize the impact of currency fluctuations on its assets.

Principal Accounting Policies and Estimates

The summary of the Company's principal accounting policies is described in Note 2 of the notes to the consolidated financial statements. ADF estimates that the most critical accounting policy relates to revenue and cost recognition. The Company uses the percentage-of-completion method to recognize revenues from contracts. This method requires that estimates of the advancement of the work and, accordingly, the costs to complete, be made to determine revenues and profits to be recognized. Under the percentage-of-completion method, profits are dependent on a variety of estimates, including the progress of the engineering, the material quantities, the attainment of certain milestones, cost estimates and other. These estimates depend on the judgment of such factors at a specific date, and certain estimates are difficult to determine before the project is sufficiently advanced. Given the uncertainties inherent in the estimation process, it is possible that actual costs could vary from the estimates. The revision of such estimates could reduce the profit on a contract while also, under certain circumstances, result in the immediate recognition of estimated losses.

Furthermore, changes commonly occur while contracts are in progress. The revenues relating to changes to contracts are only included in revenues once it is probable that they will lead to an increase in the value of the contract and that they can be estimated, although the costs may have been incurred and recognized. This situation may lead to the recognition of losses when the costs are incurred, before an agreement is reached with the client, and the recognition of profits when the negotiated agreement is signed.

Outlook and Priorities for Fiscal 2004

Considering the market weakness, management does not foresee a major improvement in business for fiscal 2003-2004. ADF Group's backlog amounted to $209.0 million as at January 31, 2003, and to approximately $120.0 million as at May 31, 2003.

Over the short term, in addition to finalizing negotiations with the secured lenders, the Company's priority will be: to complete a major restructuring program in order to lower its fixed costs and return to an operating profit, to restructure its debt, and to recover a maximum amount of the supplementary costs incurred last year in certain contracts, for which no revenues have been recognized so far, and lastly, to improve its cash flows.

The Company has further reduced its debt since the end of the last fiscal year. As at May 31, 2003, total net debt amounted to $107.9 million, having been lowered by $23.6 million compared with January 31, 2003. This decrease is due mainly to recovered income taxes of $25.0 million and an increase in the Canadian dollar which reduced the value of the debt denominated in U.S. dollars, whereas cash decreased by $10.0 million.

Creation of a Special Committee Reporting to the Board of Directors and Recourse to External Advisors to Restructure the Company

To carry on its restructuring program, ADF has set up a Special Executive Committee reporting directly to the Board of Directors and assisted by external advisors whose services were recently retained. The Company intends to present, towards the end of July 2003, the broad outlines of the restructuring plan as approved by the Board of Directors .

Louis Potvin, C.A., M.B.A.
Chief Financial Officer

Marise Paschini
Executive Vice-President,
Treasurer and Corporate Secretary

June 11, 2003

Management's Report

Auditors' Report

Financial Statements

Management's Report

The consolidated financial statements and all other information in the Annual report are the responsibility of the Company's management and have been approved by its Board of Directors.

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and include amounts that are based on best estimates and judgments. Financial information provided elsewhere in the Annual Report is consistent with that shown in the financial statements.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Board of Directors carries out its responsibility for the financial statements included in the present annual report, principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and formulates the appropriate recommendations to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

The firm of Samson Bélair/Deloitte & Touche, Chartered Accountants, has been given the mandate to audit the present consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit included tests and other procedures they deemed necessary under the circumstances. Their independent opinion on these financial statements is presented hereafter.

Jean Paschini
Chairman of the Board of Directors
and Chief Executive Officer

Louis Potvin, C.A., M.B.A.
Chief Financial Officer

Terrebonne, Quebec
June 11, 2003

Auditors' Report

To the Shareholders of
ADF Group Inc.

We have audited the consolidated balance sheets of ADF Group Inc. as at January 31, 2003 and 2002 and the consolidated statements of income (loss), retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair Deloitte & Touche.

Chartered Accountants
Montreal, Quebec
March 21, 2003

Consolidated statements of income

(in thousands of dollars except per share amounts)

Years ended January 31	2003	2002
	$	$
Revenues	**306,979**	510,179
Cost of goods sold	**415,548**	442,925
Gross profit	**(108,569)**	67,254
Selling and administrative items	**34,080**	18,506
Income (loss) before undernoted items	**(142,649)**	48,748
Amortization of capital assets	**7,822**	5,938
Income (loss) before financial charges, gain on disposal of a subsidiary, income taxes and non-controlling interest	**(150,471)**	42,810
Financial charges		
Interest on long-term debt	**4,056**	4,081
Interest income	**(48)**	(144)
Other interest	**5,782**	4,253
	9,790	8,190
Income (loss) before gain on disposal of a subsidiary, income taxes, and non-controlling interest	**(160,261)**	34,620
Gain on disposal of a subsidiary (Note 4c)	**—**	1,758
Income taxes (recovery) (Note 14)		
Current	**(24,149)**	10,198
Future	**(5,315)**	835
	(29,464)	11,033
Income (loss) before non-controlling interest	**(130,797)**	25,345
Non-controlling interest	**1,272**	(71)
Net income (loss)	**(129,525)**	25,274
Earnings (loss) per share (Note 15)	**(4.88)**	0.94
Diluted earnings (loss) per share (Note 15)	**(4.88)**	0.93

See notes to the consolidated financial statements

Consolidated statements of retained earnings (deficit)

(in thousands of dollars)

Years ended January 31	2003	2002
	$	$
Retained earnings, beginning of year	**67,729**	43,504
Net income (loss)	**(129,525)**	25,274
	(61,796)	68,778
Share and warrant issue costs, net of income taxes of $68	**—**	(115)
Convertible debentures issue costs, net of income taxes of $4	**—**	(6)
Interest on convertible debentures, net of income taxes of $525 (2002 - $572) (Note 13)	**(975)**	(928)
	(975)	(1,049)
(Deficit) retained earnings, end of year	**(62,771)**	67,729

See notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

As at January 31	2003	2002
	$	$
Assets		
Current assets		
Cash	15,086	26,520
Accounts receivable (Note 6)	67,747	115,493
Holdbacks on contracts	26,133	15,212
Contracts in progress	21,009	134,196
Inventories	12,153	13,112
Income taxes receivable	26,522	—
Prepaid expenses	1,042	855
	169,692	305,388
Capital assets (Note 7)	83,832	61,086
Intangible asset (Note 8)	1,016	—
Other assets (Note 9)	25,426	24,872
Future income taxes (Note14)	10	3,801
	279,976	395,147
Liabilities		
Current liabilities		
Bank indebtedness (Note 10)	94,920	75,553
Long-term debt reclassified to short-term (Note 11)	51,701	—
Accounts payable and accrued charges	45,664	42,342
Billings in excess of costs and recognized income on ongoing contracts	16,690	3,465
Income taxes payable	—	136
Future income taxes (Note 14)	184	6,428
Current portion of long-term debt (Note 11)	—	8,665
	209,159	136,589
Long-term debt (Note 11)	—	53,006
Future income taxes (Note 14)	—	2,862
Non-controlling interest	1,277	2,650
	210,436	195,107
Contingencies (Notes 1 and 17)		
Shareholders' equity		
Capital stock (Note 12)	117,311	117,311
Convertible debentures (Note 13)	15,000	15,000
(Deficit) retained earnings	(62,771)	67,729
	69,540	200,040
	279,976	395,147

See notes to the consolidated financial statements

Approved by the Board

Jean Paschini
Director

Marise Paschini
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)

Years ended January 31	2003	2002
	$	$
Operating activities		
Net income (loss)	(129,525)	25,274
Adjustments for:		
Amortization of capital assets	7,822	5,938
Amortization and write-off of intangible and other assets	1,705	1,087
Gain on disposal of a subsidiary	—	(1,758)
Gain on disposal of capital assets	(345)	(229)
Provisions on ongoing contracts, accounts receivable, and other assets	101,068	—
Future income taxes	(5,315)	835
Interest on convertible debentures, net of income taxes	(975)	—
Capitalized interest on long-term debt	419	2,071
Non-controlling interest	(1,272)	71
	(26,418)	33,289
Changes in non-cash operating working capital items		
Accounts receivable	37,023	(14,071)
Short and long-term holdbacks on contracts	929	(11,035)
Contracts in progress	13,656	(60,003)
Inventories	4,364	6,343
Income taxes	(26,658)	(2,161)
Prepaid expenses	(43)	51
Accounts payable and accrued charges	1,466	2,608
Billings in excess of costs and recognized income on ongoing contracts	13,225	(6,588)
	43,962	(84,856)
	17,544	(51,567)
Investing activities		
Acquisition of capital assets	(4,517)	(9,464)
Proceeds from sale of investment (Note 4)	—	2,310
Proceeds from disposal of capital assets	3,131	4,589
Business acquisitions (Note 4)	(33,681)	—
Increase in other assets	(263)	(1,759)
	(35,330)	(4,324)
Financing activities		
Increase in bank indebtedness	49,600	22,824
Repayment of bank indebtedness	(30,233)	—
Issuance of shares and warrants	—	39,817
Issuance of long-term debt	—	12,582
Repayment of long-term debt	(13,015)	(3,501)
	6,352	71,722
Net cash (outflow) inflow	(11,434)	15,831
Cash at beginning	26,520	10,689
Cash at end	15,086	26,520
Supplemental cash flow information		
Income taxes paid	1,984	13,004
Interest paid	11,999	4,382
Non-cash financing and investing activities:		
Reclassification of contracts in progress to long-term	33,589	—
Assumption of obligations and acquisition of assets under capital leases	2,626	127
Capitalized interest on convertible debentures	—	1,500

See notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

1. Going Concern

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of the Company's operations and in a foreseeable future.

During the year ended January 31, 2003, the Company has incurred significant operating losses, which led to the breach of certain financial covenants relating to its bank indebtedness and long-term debt. At May 31, 2003, the Company was in negotiation with its financial lenders to obtain new financial terms. Consequently, total indebtedness has been presented as short-term liability.

In this context, there is some doubt as to the ability of the Company to continue operating as a going concern. The Company's continued existence is dependent upon its ability to secure new financing conditions, as well as restore and maintain profitable operations.

2. Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The interest in its joint venture is accounted for using proportionate consolidation. All material inter-company transactions have been eliminated.

Revenue and cost recognition

The Company performs its services primarily under fixed-price contracts and recognizes revenue and costs from construction projects using the percentage-of-completion method. The use of this method for revenue recognition requires that estimates of progress towards completion must be developed to determine the amount of revenue and profit to recognize. Under the percentage-of-completion method, profit margins to be recognized are dependent upon the accuracy of a variety of estimates, including engineering progress, material quantities, achievement of milestones, cost estimates and others. Such estimates are dependent upon various judgements made with respect to those factors, and some are difficult to accurately determine until the project is significantly underway. Due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates. Provisions for estimated losses on uncompleted contracts are made in the period a loss becomes determinable.

Change orders and claims are common on construction contracts when changes occur once contract performance is underway. Change orders are included in total estimated contract revenue when it is probable that the change order will result in an addition to contract value and it can be reliably estimated. The cumulative effect of revisions to revenues and estimated costs is recorded in the period when the amounts are known and can be reasonably estimated. These revisions can occur at any time and the effects can be significant. Claims are included on total estimated contract revenue, only to the extent that contract costs related to the claim have been incurred, when it is probable that the claim will result in an addition to contract value and it can be reliably estimated. No profit is recognized on claims until final settlement occurs. This can lead to a situation where losses are recognized when costs are incurred before client agreement is obtained and subsequent income is recognized when signed agreements are negotiated.

Construction contracts with customers generally provide that billings are to be made periodically in amounts, which are commensurate with the extent of performance under the contracts. Contract receivables arise principally from the balance of amounts due on progress billings on jobs under construction. Holdbacks on contract receivables are amounts due on progress billings, which are withheld until the customer has accepted the completed project.

Contracts in progress represent revenue earned under the percentage-of-completion method, which has not been billed and also include costs incurred in excess of billings on contracts for which sufficient work has not been performed to allow for the recognition of revenue. Billings in excess of costs and recognized income on uncompleted contracts represent amounts billed on contracts in excess of the revenue allowed to be recognized under the percentage-of-completion method on those contracts.

Inventories

Inventories are valued at the lower of cost and replacement value. Cost is determined using the specific method.

Capital assets and amortization

Capital assets are recorded at cost. Amortization is recorded at rates, which allocate the cost of depreciable assets over their estimated useful lives, as follows:

- Buildings and land improvements, using the straight-line method over a period of 40 years or the declining balance method at rates varying from 5% to 20%;
- Machinery and traveling cranes, using the straight-line method over periods varying from 10 to 25 years;
- Office furniture, rolling stock, computer hardware and software, using the straight-line method over a period of 5 years or the declining balance method at rates varying from 20% to 30%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

2. Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets of businesses acquired.

Deferred financing fees

Financing fees are deferred and amortized over the life of the related financing agreements. Amortization of these charges is included with selling and administrative expenses.

Intangible asset

The intangible asset consists of a non-compete clause. It is being amortized using the straight-line method over the term of the clause of two years.

Deferred pre-production costs

Certain costs related to the start-up of new facilities and incurred prior to commencement of commercial operations are deferred and amortized over three years using the straight-line method.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted income tax rates for the years in which the differences are expected to reverse. Future income tax assets are accounted for only if management believes it is more likely than not that future income tax assets will be realized.

Earnings (loss) per share

Earnings (loss) per share are calculated using the treasury stock method for the outstanding warrants and options and the "if-converted" method for the convertible debentures.

Foreign currency translation

The accounts of the Company and its integrated foreign subsidiaries stated in foreign currencies have been translated into Canadian dollars as follows:

— Monetary assets and liabilities, using the exchange rate prevailing at the balance sheet date;
— Non-monetary assets and liabilities, using the exchange rate prevailing at the date of transaction;
— Revenue and expenses, using average monthly exchange rates during the year, except for amortization, which is translated at the exchange rate prevailing the date the related assets were acquired.

Unrealized exchange gains and losses resulting from assets and liabilities denominated in foreign currencies are included in net income (loss) for the period. For the year ended January 31, 2003, the exchange loss included in the loss is $402,000 compared to a gain of $9,424,000 in net income for the year ended January 31, 2002.

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1650, "Foreign Currency Translation". Effective February 1, 2002, all unrealized foreign currency gains and losses are included in earnings for the year. Previously, foreign currency gains and losses on long-term monetary items were deferred and amortized over the life of the related items. This change had no impact on the financial statements of the Company.

Derivative financial instruments

The Company uses derivative financial instruments to reduce its exposure to foreign currency exchange rates. Gains and losses on foreign exchange forward contracts used to hedge certain cash flows against the risk of currency fluctuations are deferred and recognized as a financial expense in income at the time the underlying transaction is recorded.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

As previously indicated, valuation of contracts in progress requires management to estimate the percentage of completion, cost of completion and anticipated gross margin. Measurement uncertainty exists in relation to the valuation of contracts in progress, related expenses and accounts receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

3. Changes in Accounting Policies

Stock-based compensation plans

As of February 1, 2002, the Company implemented the recommendations of section 3870 of the CICA Handbook, entitled "Stock-based compensation and other stock-based payments". This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. This section requires the use of the fair value method for all grants to non-employees and some direct grants of shares as well as other grants which provide for a settlement in cash or other assets. This section encourages, but does not require, the use of the fair value method for all other stock-based compensation plans. It applies to all awards granted by the Company on February 1, 2002 or thereafter. The Company offers a stock-based compensation plan to certain employees and has chosen not to use the fair value method of accounting to record stock-based compensation of its employees.

The Company records no compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of options is credited to capital stock of the Company. Pro-forma disclosure is presented in Note 12.

Business combinations, goodwill and other intangible assets

The Company adopted the recommendations of Section 1581 "Business Combinations" and Section 3062, "Goodwill and Other Intangible Assets" of the CICA Handbook. Under these recommendations, goodwill related to acquisitions completed after June 30, 2001 is no longer amortized, while goodwill recorded in the balance sheet as at June 30, 2001 was amortized until January 31, 2002, at which time it ceased to be amortized. The Company wrote-off goodwill in the amount of $128,000 during the year ended January 31, 2003.

Future Accounting Changes

Impairment of long-lived assets

The CICA recently issued Handbook Section 3063, "Impairment of Long-lived Assets". This new section provides guidance on the recognition, measurement and disclosure of impairment of long-lived assets. This new section replaces the write-down provisions outlined in Handbook Section 3061, "Property, Plant and Equipment" and is effective for periods commencing on or after April 1, 2003.

This new section requires the Company to recognize an impairment loss for long-lived assets to be held and used when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The impairment loss is calculated by deducting the fair value of the long-lived assets from its carrying value.

The Company is evaluating the effect of the adoption of this new standard on its consolidated financial statements.

Disposal of long-lived assets and discontinued operations

The CICA recently issued Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations". This new section provides guidance on recognition, measurement, presentation and disclosure for long-lived assets to be disposed. This new section replaces the disposal provisions in Handbook Section 3061, "Property, Plant and Equipment," and in Handbook Section 3475, "Discontinued Operations" and will apply to disposal plans initiated on or after May 1, 2003.

This new section provides criteria for the classification of long-lived assets held for resale. It requires that a long-lived asset held for resale be measured at its fair value less estimated disposal costs. This section also provides criteria for the classification of the disposal of a long-lived asset as a discontinued operation and specifies the presentation of and disclosures for discontinued operations and other disposals of long-lived assets.

Guarantees

The CICA recently issued Accounting Guideline 14, "Disclosure of Guarantees". The new Accounting Guideline requires a guarantor, for periods beginning on or after January 1, 2003, to disclose significant information about guarantees it has provided. The Company is currently assessing whether additional disclosures will be necessary with respect to this new Accounting Guideline.

4. Divestiture and Business Acquisitions

a) On March 27, 2002 the Company acquired the operating assets of SMI-Owen Steel Company (Owen Steel) of Columbia, South Carolina for a cash consideration of $33,125,000 (US$20,716,072), including acquisition costs of $1,625,000 (US$1,016,272). Net assets acquired are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

4. Divestitures and Business Acquisitions (continued)

	$
Working capital	6,914
Capital assets	26,211
Net assets acquired	33,125
Consideration paid (including deposit of $765 as of January 31, 2002)	**33,125**

b) On October 10, 2002, the Company acquired for a cash consideration of $1,321,000, including acquisition costs, the 40% non-controlling interest in its subsidiary Montage D'acier International Inc., pursuant to an agreement dated May 1, 2002.

Since May 1, 2002, the Company includes 100% of the earnings of this company in its consolidated results. The details of the transaction are as follows:

	$
Net assets acquired	252
Ownership held (60%)	(151)
Minority ownership acquired (40%)	101
Intangible assets – non-compete clause	1,220
Consideration paid	**1,321**

c) On October 3, 2001, the Company disposed of its interest in Tecnogaz Quebec Inc. for a cash consideration of $2,310,000, resulting in a gain of $1,758,000.

5. Joint Venture Operations

The Company's 50% ownership in 3792480 Canada Inc., which owns 80% of Amcan Threaded Products Inc. and 80% of Amcan Fasteners Inc., included in the consolidated financial statements, is summarized below:

	2003	2002
	$	$
Balance Sheet		
Working capital (including an overdraft of $173 at January 31, 2003 and cash of $233 at January 31, 2002)	**1,202**	1,569
Capital assets	**186**	179
Other assets	**13**	140
Long-term debt	**—**	(471)
Future income taxes	**(5)**	(5)
Non-controlling interest	**(272)**	(255)
Net assets	**1,124**	1,157
Income Statement		
Sales	**5,010**	9,388
Expenses	**5,043**	9,732
Net loss	**(33)**	(344)
Cash Flows		
Cash provided by (used in)		
Operating activities	**210**	624
Investing activities	**(50)**	(41)
Financing activities	**(566)**	133

6. Accounts receivable

	2003	2002
	$	$
Contracts receivable	**65,699**	100,275
Allowance for doubtful accounts	**(3,853)**	(1,303)
	61,846	98,972
Other receivables	**5,901**	16,521
	67,747	115,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

7. Capital Assets

	2003		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	2,955	—	2,955
Buildings and land improvements	48,012	5,133	42,879
Machinery and traveling cranes	41,718	12,578	29,140
Office furniture, rolling stock and computer hardware	9,163	4,698	4,465
Intangible assets			
Software	6,905	2,512	4,393
	108,753	24,921	83,832

	2002		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	1,011	—	1,011
Buildings and land improvements	37,338	4,254	33,084
Machinery and traveling cranes	30,160	9,369	20,791
Office furniture, rolling stock and computer hardware	6,268	3,361	2,907
Intangible assets			
Software	4,754	1,461	3,293
	79,531	18,445	61,086

The cost of capital assets includes assets under capital leases of $3,461,000 ($280,000 in 2002) which are included in the machinery and traveling cranes and office furniture, rolling stock and computer hardware categories.

8. Intangible Asset

	2003	2002
	$	$
Non-compete clause, at cost	1,220	—
Accumulated amortization	(204)	—
	1,016	—

9. Other Assets

	2003	2002
	$	$
Amount receivable relative to a contract (Note 17)	16,852	—
Long-term portion of holdbacks on contracts	8,179	16,330
Note receivable from a sub-contractor [a]	—	6,410
Deferred financing fees, at amortized cost	72	623
Deposit on business acquisition (Note 4a)	—	765
Deferred pre-production costs, at amortized cost	—	470
Goodwill	—	128
Other	323	146
	25,426	24,872

[a] As at January 31, 2002, the note receivable from a sub-contractor bears interest at the higher of the Company's average borrowing cost plus 1%, and 8%, is secured by a movable hypothec on certain equipment and is repayable at any time up to August 2005. The Company negotiated, after 2003 financial year-end, and agreement with the sub-contractor which led to the recording of a provision on part of the note receivable. The outstanding amount of $761,000 (US$500,000) to be received is included in "Accounts Receivable" under "Other Receivables".

10. Bank Indebtedness

	2003	2002
	$	$
Bank loans		
Credit facility [a]	70,750	74,147
Temporary loan [b]	22,823	—
Other [c]	1,347	1,406
	94,920	75,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

10. Bank Indebtedness (continued)

a) In March 2002, the Company entered into a new credit facility with a syndicate of lenders, which provided a $110,000,000 revolving credit facility maturing in March 2005. The Company must meet certain financial requirements and ratios, as per the bank's credit facilities terms and conditions. At January 31, 2003, the Company did not respect certain financial ratios and consequently the debt has been reclassified to short-term bank indebtedness. The lenders did not request the reimbursement of the advances and negotiations are underway to remedy the situation. As at January 31, 2003, advances under this facility amounted to $70,749,750 (US$46,500,000) and bear interest at 4.97%. The facility is secured by a first rank hypothec on all assets except for the assets pledged to long-term debtholders and the assets of Owen Steel, which are pledged to the debtholders of the temporary loan and on which the banking syndicate has a second rank charge.

b) The Company obtained a temporary financing of $39,600,000 (US$25,000,000) with regards to the acquisition of Owen Steel as mentioned in Note 4a). During the year, an amount of $15,800,000 (US$10,000,000) was repaid and an amount of $22,822,500 (US$15,000,000) is included in bank indebtedness as at January 31, 2003. The temporary financing had a maturity date of October 31, 2002 and prior to maturity, the Company requested an extension of the maturity date to December 31, 2002 in order for the Company to complete a long-term financing of this loan. As of January 31, 2003, the lender of the temporary financing did not request reimbursement of the advances and negotiations are underway to remedy the situation. The temporary financing bears interest at 4.35% as of January 31, 2003 and is secured by a first rank hypothec on all the assets of Owen Steel.

c) The Company's joint venture entered into a credit facility whereby the joint venture can borrow up to $5,000,000, secured by a hypothec on the universality of moveable property of the joint venture and its subsidiaries. The facility bears interest at prime rate. The Company did not provide any security for this credit facility.

11. Long-Term Debt

	2003	2002
	$	$
Bank loan, secured by a second rank hypothec on the universality of moveable and immoveable property, present and future of the Company, bearing interest at 5.1% until February 2004 and thereafter at lender's base rate less 1.5%, repayable in monthly instalments of $50,000 in capital, beginning in February 2002, followed by 108 monthly instalments of $100,000 in capital starting in December 2004, maturing in November 2013 [a)]	**11,900**	12,500
Bank loan, secured by a first rank hypothec on the universality of moveable and immoveable property, present and future of a subsidiary of the Company, bearing interest at 5.1% until February 2004 and thereafter at lender's base rate less 1.5%, repayable in monthly instalments of $150,000 in capital, beginning in September 2000, followed by 125 monthly instalments of $100,000 in capital starting in November 2004, maturing in March 2015 [a)]	**15,650**	17,450
Debentures, unsecured, bearing interest at 10%, interest payable quarterly beginning February 2002, when all accrued interest will be payable, repayable on December 28, 2005 or earlier, at the option of the Company [a)]	**15,000**	15,000
Loan, secured by a moveable hypothec on machinery and equipment of a subsidiary, bearing interest at 10%, maturing in November 2002 [b)]	**6,491**	6,072
Revolving bank loan, bearing interest at prime rate, repaid in April 2002	**—**	10,000
Obligations under capital leases, bearing interest at 6.6%, repayable in monthly instalments of $38,980 (US$24,599) capital and interest, maturing in August and September 2009 [a)]	**2,425**	—
Obligations under capital leases, bearing interest from 7.96% to 11.87%, maturing from October 2003 to February 2005 [a)]	**152**	243
Other	**83**	406
	51,701	61,671
Long-term debt reclassified to short term [a)]	**(51,701)**	—
Current portion	**—**	(8,665)
	—	53,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

11. Long-Term Debt (continued)

a) As indicated in Note 1, the Company did not respect the conditions associated with its credit facility and as a result the Company was in default with respect all of its long-term debt. Consequently, all debts have been reclassified to short-term.

b) This loan matured on November 30, 2002. The Company obtained an extension of the maturity date until February 28, 2003 under the same terms and conditions. Negotiations are underway for the refinancing of this debt.

Long-term debt, based on original terms, matures as follows:

	Obligations under capital leases			Other debt	Total
	Minimum payments	Interest	Principal	Principal	Principal repayment required
	$	$	$	$	$
2004	533	155	378	8,947	9,325
2005	490	131	359	2,363	2,722
2006	494	103	391	17,414	17,805
2007	448	80	368	2,400	2,768
2008	449	57	392	2,400	2,792
2009 and thereafter	727	38	689	15,600	16,289
	3,141	564	2,577	49,124	51,701

12. Capital Stock

Authorized:

— An unlimited number of subordinate voting shares, carrying 1 vote per share
— An unlimited number of multiple voting shares, carrying 10 votes per share
— An unlimited number of preferred shares issuable in series

Changes in capital stock during the year were as follows:

	Subordinate voting shares		Multiple voting shares		Warrants	
	Number	$	Number	$	Number	$
Balance at January 31, 2001	7,717,338	61,310	14,343,107	16,001	450,000	—
Issued a)	4,700,000	38,120	—	—	500,000	1,880
Balance at January 31, 2002 and 2003	12,417,338	99,430	14,343,107	16,001	950,000	1,880

a) On April 11, 2001, the Company issued 4,700,000 subordinate voting shares to Société générale de financement du Québec (SGF) for cash proceeds of $37,946,000, net of issue costs of $174,000.

Warrants

Concurrent with the issuance of the debentures and the convertible debentures in December 2000 (Notes 11 and 13), the Company issued to the lender 450,000 warrants which allow the purchase, up to December 2005, of 450,000 subordinate voting shares of the Company at a price of $11.00 per subordinate voting share; 300,000 warrants are exercisable at any time, while 150,000 warrants are exercisable in the event the Company is in default of the covenants attached to the debentures and the convertible debentures.

Concurrent with the issuance of subordinate voting shares to SGF in April 2001, the Company issued 500,000 warrants, maturing in January 2006, which allow the purchase of 500,000 subordinate voting shares of the Company at $11.00 per share, for cash proceeds of $1,871,000, net of issue costs of $9,000.

Stock option plan

The Company has a stock option plan for which 2,094,340 subordinate voting shares have been reserved for issuance. The plan requires that the exercise price under the options granted must not be less than the market value of a share at closing on the day immediately preceding the date of grant of the option. The options are exercisable one year after the date of grant at the rate of 20% per year and have a 10-year life. At January 31, 2003, 600,000 options have been granted under the plan, of which 80,000 options were exercisable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

12. Capital Stock (continued)

Stock option plan (continued)

Under the stock option plan, the following options were granted by the Company and are outstanding as at January 31 (in units):

	2003		2002	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**500,000**	**$13.80**	—	—
Granted	**200,000**	**11.66**	500,000	$13.80
Cancelled	**(100,000)**	**13.80**	—	—
Outstanding, end of year	**600,000**	**13.09**	500,000	13.80
Exercisable, end of year	**80,000**	**$13.80**	—	—

As at January 31, 2003, the exercise price, the weighted average exercise price and the weighted average remaining contractual life of the options were as follows:

	Options outstanding			Options exercisable	
Exercice price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$		$			$
7.50	50,000	9.61	7.50	—	—
13.05	150,000	9.34	13.05	—	—
13.80	400,000	8.95	13.80	80,000	13.80
	600,000	9.10	13.09	80,000	13.80

Had compensation costs for the Company's stock-based compensation plan been determined using the fair value method, for the options granted during the year, the Company's net loss would have been $129,690,000, while the basic and diluted loss per share would have remained unchanged for the year ended January 31, 2003.

These pro forma results reflect only the impact of the fair value of the options granted since the adoption of CICA Handbook Section 3870, "Stock Based Compensation and Other Stock-based Payments" on February 1, 2002. Therefore, the pro forma impact presented above may not be indicative of the pro forma impact in future periods.

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used:

Dividend yield	0%
Expected volatility	44%
Risk-free interest rates	5.21%
Expected life	8 years

The weighted average fair value of the options granted during the year ended January 31, 2003 was $6.59.

13. Convertible Debentures

The convertible debentures bear interest at 10%, are unsecured and interest is payable quarterly beginning on February 1, 2002, when all the cumulative interest to date will be paid. The principal of the convertible debentures is repayable on December 28, 2005 or earlier, at the Company's option. The principal and interest of the convertible debentures are convertible at any time, or in the event of default, and at the option of the Company into subordinate voting shares of the Company at a ratio based on the value of the Company's subordinate voting shares on the market on the day preceding the conversion or the average market value of the 20 days prior to conversion, whichever is higher.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

14. Income Taxes

The provision for (recovery of) income taxes is comprised of the following:

	2003	2002
	$	$
Provision using basic income tax rates	(57,753)	13,776
Increase (decrease) resulting from:		
Unrecognized benefit of tax loss carryforwards	21,165	210
Large corporation tax	1,120	281
Reversal of previously booked tax loss carryforwards	1,889	—
Manufacturing and processing credit	2,101	(2,428)
Other	2,014	(806)
	(29,464)	11,033

As at January 31, the future income tax assets and liabilities were as follows:

	2003	2002
	$	$
Future income tax assets		
Tax loss carryforwards	31,135	4,625
Deferred charges	241	555
Holdbacks payable	159	1,677
Capital assets	44	—
Other	2	151
Valuation allowance	(23,651)	(510)
	7,930	6,498
Future income tax liabilities		
Capital assets	4,211	3,736
Holdbacks receivable	3,892	8,251
Other	1	—
	8,104	11,987
Future income tax liabilities - net	(174)	(5,489)
Included in:		
Future income tax assets – non-current	10	3,801
Future income tax liabilities – current	184	6,428
Future income tax liabilities – non-current	—	2,862

As of January 31, 2003, the Company had tax loss carryforwards of approximately $47,000,000 and US$11,850,000 maturing up to 2010 and 2023 respectively, for which no benefit has been recognized.

15. Earnings (loss) per Share

The table below reconciles the numerator and denominator used in basic and diluted earnings (loss) per share calculation.

	2003	2002
	$	$
Numerator		
Net income (loss)	(129,525)	25,274
Interest on convertible debentures, net of income taxes	(975)	(928)
Numerator for basic earnings (loss) per share	(130,500)	24,346
Effect of dilutive securities		
Interest on convertible debentures, net of income taxes	—	928
Numerator for diluted net earnings (loss) per share	(130,500)	25,274
Denominator (in units)		
Average number of shares – basic	26,760,445	25,871,952
Effect of dilutive securities		
Convertible debentures	—	1,101,322
Warrants	—	164,564
Average number of shares – diluted	26,760,445	27,137,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

15. Earnings (loss) per Share (continued)

Stock options outstanding at January 31, 2003 and January 31, 2002, were not included in the computation of diluted net earnings (loss) per share because their exercise price was greater than the average market price of the subordinate voting shares. For the year ended January 31, 2003, the convertible debentures were not included in the computation of diluted net loss per share because their effect is anti-dilutive.

Warrants to purchase 950,000 subordinate voting shares at $11.00 per share were outstanding at January 31, 2003 but were not included in the computation of diluted loss per share because the exercise price was greater than the average market price of the subordinate voting shares.

16. Commitments

The Company is committed until 2008, under lease agreements to rent office space and equipment for an amount of $1,376,000. The minimum amounts payable over the next five years are as follows:

	$
2004	479
2005	355
2006	283
2007	256
2008	3

17. Contingencies

a) *Claims*

The Company and certain of its subsidiaries are contingently liable for commitments and performance guarantees arising in the ordinary course of business. The Company has made certain claims against clients for costs incurred in excess of the current contract provisions. Except as noted below, recognized claims against clients amounted to $5,087,000 (of which $1,651,000 was in US dollars) at January 31, 2003. Although the resolution of the claims cannot be predicted with certainty, management does not believe that their resolution will have a material effect on the consolidated financial position or results of operations.

During the year, a subsidiary of the Company completed a contract for which several unexpected costs were incurred, exceeding the original contract estimate subsequent to multiple changes, additional work and delays. The client has decided to avail itself of the arbitration process provided for in the contract. The arbitration date has not yet been set. In December 2002, the Company filed a claim of over $56,300,000 (US$37,000,000) against the project owner, project manager and project design professionals. Claims totalling $19,500,000 (US$12,820,000) have been filed against the Company. The Company is contesting these claims, which are not included in the cost of the project. For purposes of the consolidated financial statements, an amount receivable relative to a contract of $16,852,000 (US$11,100,000) is included in other assets as at January 31, 2003, representing a portion of the cost overruns on the original contract. The Company has not recognized any profits on this contract. A contract holdback of $3,043,000 (US$2,000,000) is also outstanding and included in the item "Holdbacks on long-term contracts" included in other assets. Although management and its legal counsel are not able to predict the final outcome of these claims, management intends to aggressively pursue its claim.

b) *Bonding agreements*

In the normal course of business, the Company may be required by clients to provide performance bonds for the execution of work. In order to provide such bonds, certain subsidiaries of the Company have entered into general indemnity agreements with a bonding company. To guarantee the obligations of the Company's subsidiaries thereunder, these subsidiaries have granted to the bonding company movable hypothecs on certain assets such as rights, titles, licenses, equipment and work in process.

c) *Litigation*

In the normal course of its operations, the Company becomes involved in various legal proceedings. While the final outcome with respect to legal proceedings pending at January 31, 2003 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

18. Related Party Transactions

In the normal course of business, certain transactions were concluded with companies related to shareholders and other affiliated companies. These transactions are measured at the exchange amount, which approximates market value, and are summarized below:

	2003	2002
	$	$
Interest income and management fee income	**8**	13
Management fees	**1,795**	1,127
Rent	**303**	424

19. Pension Plans

Since May 2001, the Company offers certain of its employees a deferred contribution pension plan. The Company is required to contribute a percentage of the employees' salary. The Company's contribution for the year ended January 31, 2003 amounted to $1,060,000 ($755,694 in 2002).

20. Financial Instruments

Credit risk

The Company provides credit to its clients in the normal course of its operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent credit losses. For other amounts receivable, the Company determines, on a continuing basis, the probable losses and sets up a provision for losses based on the estimated realizable value.

Concentration of credit risk with respect to receivables is limited, as the Company's customers tend to be large general contractors servicing adequately funded projects. The Company also retains certain lien rights.

Currency risk and financial instruments

The Company realizes approximately 90% of its sales in US dollars. The Company maintains its bank indebtedness in US dollars and enters into foreign exchange contracts to manage its foreign exchange risk in order to minimize the fluctuations associated with the Canadian dollar against the US dollar. The Company uses forward exchange contracts to manage cash flows denominated in US dollars. At January 31, 2003, the Company had forward exchange contracts maturing to April 30, 2003 to exchange US$40,000,000 for Canadian dollars. The market value of such contracts was $311,600 at January 31, 2003. Counterpart to these contracts is a major Canadian financial institution.

Interest rate risk

All of the Company's long-term debt bears fixed interest rates.

Fair values

The fair values of accounts receivable, bank indebtedness and accounts payable and accrued charges correspond to their carrying amounts because of their short-term maturity dates.

The fair values of the components of long-term debt are determined by discounting future cash flows in accordance with existing financing agreements, based on the market interest rates offered to the Company for loans with similar terms and conditions and maturity dates. Considering the reclassification of the long-term debt to short-term, the fair values are equivalent to their carrying amounts. The Company's estimated fair values of long-term debt and convertible debentures are as follows:

	2003		2002	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	$	**$**	$	$
Convertible debentures	**15,000**	**15,000**	15,000	15,000
Long-term debt	**51,701**	**51,701**	61,671	61,575

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended January 31, 2003 and 2002 (all tabular figures are expressed in thousands of dollars)

21. Segment Reporting

The Company operates principally in Canada and in the United States in non-residential construction. Its activities include the design, engineering, manufacturing and erection of complex metallic structures, as well as architectural metal works. The Company is also involved in the distribution of metal fasteners and the rental of heavy construction equipment. These activities are not important compared to the main activity of the Company and do not exceed the threshold for separate reporting. As a result, the Company has changed segment reporting as of January 31, 2003.

Information concerning principal geographic areas is as follows:

	2003		2002	
	Revenues	**Capital assets**	Revenues	Capital assets
	$	**$**	$	$
Canada	**27,021**	**52,136**	103,954	55,022
United States	**279,958**	**31,696**	406,225	6,064
	306,979	**83,832**	510,179	61,086

22. Comparative Figures

Certain figures for the preceding year have been reclassified in order to conform to the presentation adopted in the current year.

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